Assisted Rental Housing at Risk of Conversion

In 1989, the California Government Code was amended to include a requirement that localities identify and develop a program in their housing elements for the preservation of assisted, affordable multi-family units. Subsequent amendments have clarified the scope of the analysis to also include units developed pursuant to inclusionary housing and density bonus programs. In the preservation analysis, localities are required to provide an inventory of assisted, affordable units that are eligible to convert within ten years. As part of the analysis, an estimation of the cost of preserving versus replacing the units is to be included, as well as programs designed to preserve the affordable units.

The California Housing Partnership Corporation provides an inventory of federally subsidized rental units at risk of conversion. The 2001 update, which identifies units at risk through the year 2020, identifies two HUD-assisted multi-family housing developments with Section 8 contracts in the Morgan Hill. Village Avante, for lower income families, had 13 Section 8 units and 112 assisted units before its contract was acquired by EAH in 1999. Sycamore Glen is now owned by South County Housing, a non-profit organization, that provides 20 Section 8 assisted units for the elderly and handicapped out of a total of 21 units. The contract for Sycamore Glen is due to expire in 2009, but is considered a low-risk project because South County Housing is a non-profit organization interested in acquiring, preserving, and providing affordable housing in the community.

Although not listed on the California Housing Partnership Corporation listing, there are six City assisted projects due to expire within the next ten years. Glen Creek Apartment Homes contains 20 units subsidized for very low- and low-income households and is due to expire in 2008. The remaining five projects are replacement or rehabilitation efforts subsidized for low-income households. The Downtown Replacement Program subsidizes two replacement units due to expire in 2010. The Del Monte Rehabilitation Program subsidizes one low-income unit due to expire in 2011. Two other rehabilitation programs, the Single Family Rehabilitation Program and Coleman Rehabilitation Program, each provide one low-income subsidized unit due to expire in 2005 and 2010, respectively.

Table 25 lists BMR rentals in Morgan Hill and the expiration of their affordability limitation.

Table 25

Below Market Rate Rentals in Morgan Hill

Complex	Income Category	Unit Size	Date Restrictions Expire
St. James Place (6 units)	Very Low	three-bedroom	2019
La Crosse Village Apartments (5 units of 50 total units)	Very Low	two-bedroom	2019
Rose Haven (6 units)	Very Low Low	three-bedroom four-bedroom	2017
Morgan Springs (1 unit)	Very Low	two-bedroom	2019
Village at Springhill (2 units)	Very Low	two-bedroom	2019
Westmoreland Park (1 unit)	Very Low	two-bedroom	2019
Glen Creek Apartment Homes (20 units of 138 total units)	Very Low units	58 one-bedroom 79 two-bedroom	2008
The Villas I and II (3 units)	Very Low Low	three-bedroom	2018/2021
Downtown Replacement Program (1 unit)	Low	three-bedroom	2010
Bridge (Special Needs Housing, 1 unit)	Very Low	six-bedroom (shared)	2020
Downtown Replacement Program (1 unit)	Low	two-bedroom	2010
Christina Apartments (1 unit)	Very Low	two-bedroom	2013
Downtown Replacement Program (1 unit)	Low	three-bedroom	2013
Del Monte Rehab Program (3 units)	Low	two-bedroom	2017
Single Family Rehab Program (1 unit)	Low	four-bedroom	2005
Coleman Rehab Program (1 unit)	Low	two-bedroom	2010
Wright Ave. Rehab (1 unit)	Low	three-bedroom	2008
Keith Way Rehab (3 units)	Low	two-bedroom three-bedroom	2018

Table 25

Below Market Rate Rentals in Morgan Hill

Complex	Income Category	Unit Size	Date Restrictions Expire
Nob Hill Terrace Rehab (3 units)	Low	two-bedroom	2018
Silverwings (1 unit)	Very Low	three-bedroom	2021
Skeels Hotel (13 units)	Very Low	studios	2050
San Pedro Gardens (20 units)	Very Low Low	17 two-bedroom 3 three-bedroom	2022
Crest Avenue Apartments (28 units)	Low	28 two-bedroom	2015
The Willows (20 units)	Very Low Low	5 two-bedroom 6 three-bedroom 8 four-bedroom	2047
Terracina I and II at Morgan Hill (148 units)	Very Low Low	34 one-bedroom 66 two-bedroom 46 three-bedroom 2 four-bedroom	2052
Cochrane Village (96 units)	Very Low Low	2 one-bedroom 8 two-bedroom 5 three-bedroom 1 four-bedroom	2052
Murphy Ranch (100 units)	Very Low Low	14 one-bedroom 32 two-bedroom 31 three-bedroom 3 four-bedroom	2052
Depot Commons (12 units)	Low	12 studios	2050
Village Avante (112 units)	Very Low Low	8 two-bedroom 39 three-bedroom 45 four-bedroom 20 five-bedroom	2054
Barrett Oaks (1 unit)	Very Low	three-bedroom	2020
Villa Ciolino (42 units)	Very Low Low	4 one-bedroom 16 two-bedroom 8 three-bedroom	2056
Hacienda Valley Mobile Estates (123 units)	Very Low		2059

Table 25

Below Market Rate Rentals in Morgan Hill

Complex	Income Category	Unit Size	Date Restrictions Expire
Jasmine Square (72 units)	Low	24 one-bedroom 26 two-bedroom 20 three-bedroom 2 four-bedroom	2060
Royal Court (55 units)	Extremely Low Very Low Low	14 one-bedroom 24 two-bedroom 16 three-bedroom	2061

Source: City of Morgan Hill, 2006.

Note: Not all complexes provided the number of affordable units within their development.

Based on the costs of land, permits, development, and construction (see Non-Governmental Constraints section), the estimated cost per unit to replace affordable rental units in Morgan Hill would be between $119,464 and $146,000 per dwelling unit depending on renovation needs, construction needs, location, and other factors. Coldwell Banker listed one multi-family property in the City as of October 2001. The number of units was not listed for this $2,600,000 property on Crest Ave., but the structure encompasses 13,354 square feet. An Internet search (LoopNet®, 2001) of six multi-family properties for sale in surrounding communities, the cost of acquiring rental units is estimated to be $150,000 per dwelling unit.

The cost of replacing affordable units will vary, depending on the project density, location, unit sizes, and quality of construction. An affordable housing project, in the range 12 to 16 to dwelling units per acre, could cost between $120,000 and $180,000 per dwelling unit (including land and development costs), depending on the square footage and number of bedrooms. A higher density project, in the range of 20 to 25 dwelling units per acre, could cost between $100,000 and $155,000 to construct, again depending on density and unit size. These costs assume that a non-profit motivated entity develops the projects.

These costs estimates are for development of new multifamily dwelling units on vacant land, not conversion of existing structures to residential use or development of a mixed-use commercial/residential project.

The cost of providing long-term rental subsidies in lieu of acquiring and replacing affordable units would also be significant. The City has identified 25 rental housing units potentially at risk of conversion through 2011. Table 25A summarizes the estimated cost of providing 30 years of rental subsidies in 2001 dollars. The City selected 30 years as the relevant timeframe for analysis because most local, state, and federal rental housing programs require a minimum affordability period of 30 years. The calculations are based on income levels of 50% of Santa Clara median income for very low-income households and 65% of Santa Clara County median income for low-income households. The targeted income group is based on the occupancy of the at-risk rental units in 2001. Different assumptions regarding the income levels of the occupants of the 25 assisted units would result in different calculations regarding the necessary rental subsidy.

Based on the assumptions in Table 25A, the 30-year rental subsidy for the 25 at-risk rental units would be $2.75 million, or $110,073 per dwelling unit. This cost is lower than the acquisition or replacement cost, but only if the gap between an affordable housing payments and fair market rents does not increase over the 30-year period.

Table 25A

Estimate Rental Subsidy Payments Over 30 Years

# of Units	Bedrooms	Targeted Income Group	Assumed Household Size	30% of Monthly Income	2001 HUD Fair Market Rent	Monthly Difference	30-Year Estimated Subsidy
5	1	Very Low	2	$875	$1,289	$414	$745,200
5	2	Very Low	4	$1,090	$1,592	$502	$903,600
5	1	Low	2	$1,125	$1,289	$164	$295,200
8	2	Low	4	$1,405	$1,592	$187	$67,320
1	3	Low	5	$1,515	$2,182	$667	$240,120
1	4	Low	8	$1,851	$3,241	$1,390	$500,400
Total Estimated 30-Year Subsidy							$2,751,840

REGIONAL HOUSING NEEDS DETERMINATION (RHND)

ABAG's methodology is based on the regional numbers supplied by the State Department of Housing and Community Development (HCD), these are "goal numbers" and are not meant to match, and often exceed, anticipated growth in housing units. A goal vacancy rate is set by HCD, and then a housing unit need to meet that vacancy rate is derived by assessing potential growth rates (population, jobs, households) and loss of housing due to demolition. The numbers produced by HCD are provided to ABAG in the form of a regional goal number, which is then broken into income categories. ABAG is mandated to distribute the numbers to Bay Area jurisdictions by income categories. ABAG is responsible for allocating the Regional Housing Needs Determination (RHND) goal number to cities and counties in the Bay Area.

The "Regional Housing Needs Determination," was adopted by ABAG in March 2001. This plan covers the period from January 1, 1999 through June 30 2006. Existing need is evaluated based on overpayment (30 percent or more of income) and overcrowding by lower-income households and the need to raise vacancy rates in the jurisdiction to a level at which the HCD market would operate freely.

The methodology used to determine the future need considers the growth in number of households expected, the need to achieve ideal vacancy rates, the need for more housing opportunities, and compensation for anticipated demolition. An "avoidance of impaction" adjustment was applied to the preliminary allocation figure to avoid further concentration of low-income units in jurisdictions that have more than the regional average.

The RHND allocation is a minimum needs number—cities and counties are free to plan for, and accommodate, a larger number of dwelling units than the allocation. The City must however use the numbers allocated under the RHND to identify measures (policies and ordinances) that are consistent with these new construction goals. While the City must also show how it will accommodate for the units to be built, it is not obligated to build any of the units itself or finance their construction.

According to the RHND, the City of Morgan Hill has a total housing construction need of 2,484 units and an annual need of 331 units. Table 26 shows Morgan Hill's 1999-2006 planning period allocation. It should be noted that 101 of the 2,484 units represent the needs of the unincorporated area within Morgan Hill's sphere of influence, which is the City's responsibility whether or not the City annexes any land between 1999 and 2006. Under the RHND, the City must accommodate 683 additional dwelling units at densities suitable for the development of housing for very low- and low-income households, and 615 additional dwelling units at densities suitable for moderate-income households.

Table 26

Regional Housing Needs Determination (2001)

Total Dwelling Units	Sphere of Influence	% of Total	Income Level
455	18	18%	Very Low-Income
228	9	9%	Low-Income
615	25	25%	Moderate-Income
1,186	49	48%	Above Moderate-Income

Source: ABAG 1999-2006 Regional Housing Needs Determination.

Between January 1999 and June 2006, City produced or approved for construction a total of 2528 housing units. This exceeds the RHND by 44 units. This production and RHND is shown on Table 27. The number of units added is based on City permit records and Department of Finance estimates. The 391 units authorized for the first half of 2006 include those approved for construction in FY 04-05 or earlier that were not completed in that fiscal year as well as those approved for construction in FY 05-06 that were not completed in 2005. The large number units constructed in the first year of the planning period was due to an exceptional housing market and availability of many units that were approved for construction in earlier years and not constructed until 1999.

Over the planning period, the City was able to produce 405 units available to persons of very low income. This is approximately 90 percent of the RHND for this income group. The City's production of low income affordable units totaled 390 units or approximately 170 percent of the RHND. For the moderate income group, the City's production was 222 units or approximately 36 percent of the RHND. The affordable units produced include deed-restricted units provided by for-profit housing developers as part of the City's BMR program and units produced by non-profit housing developers using funds that ensure affordability over extended periods of time. Also included are secondary dwelling units and non-deed restricted units that were sold at affordable prices. Included in the production is Village Avante, a 112-unit federally subsidized project for which the affordabilty restrictions were scheduled to expire in 1999.

Table B-5 provides a detailed listing of all affordable units produced and authorized to be during the 1999-2006 time period. Where applicable, the Table lists the basis for the affordability restrictions. The secondary dwelling units included on the Table do not have affordability restrictions. However, these are typically one or two-bedroom units and less than 1000 square feet in size. Given the size of these units and affordability information contained earlier in this document, it is assumed that these units would be available to persons of low income and have been so listed. Also, a number of single-family attached and condominium units have been listed on the Table as they have been constructed and sold for prices that are affordable to persons of moderate income. Sales prices of those units have been documented. The moderate-income affordability of these units was based on HUD's annual income figures for Santa Clara County and assume four-person households, a 10 percent down payment, and an expenditure limit of 30 percent of the gross monthly income.

Table 27

Units Added, Approved, and Potential to Meet RHND Allocation
January 1999 to June 2006

Year	Very Low Income	Low Income	Moderate Income	Above Moderate Income	Total (1)
1999 Total	259	97	95	455	906
2000 Total	0	30	14	125	169
2001 Total	41	33	38	107	219
2002 Total	8	31	28	22	89
2003 Total	0	29	6	227	262
2004 Total	0	90	8	155	253
2005 Total	49	68	33	89	239
1999-2005 Total	357	378	222	1180	2137
1999-2006 RHND Allocation	455	228	615	1186	2484
RHND Need for 2006	98	-150	393	6	347
2006 Authorized Production (2)	48	12	0	331	391
1999-2006 Deficit/ (Surplus) (3)	50	0	231	(325)	(44)

(1) Information on total units from the Department of Finance. Information on very low-, low-, and moderate-income units based on City's review of development permit records and deed restrictions associated with BMR and other price/rent-restricted units.

(2) The total number of units includes those that received approval for construction in FY 04-05 or earlier and have not been completed (147) and units approved for construction in FY 05-06 and have not been completed (244). Income levels are based on actual approvals for projects to be constructed in FY 05-06.

(3) Between 1999 and 2006 the City will produce 162 low-income units in excess of the RHND allocation. Those units have been shifted to the moderate-income column to reduce the deficit in this column and create a "zero" surplus in the low-income column.

Source: City of Morgan Hill